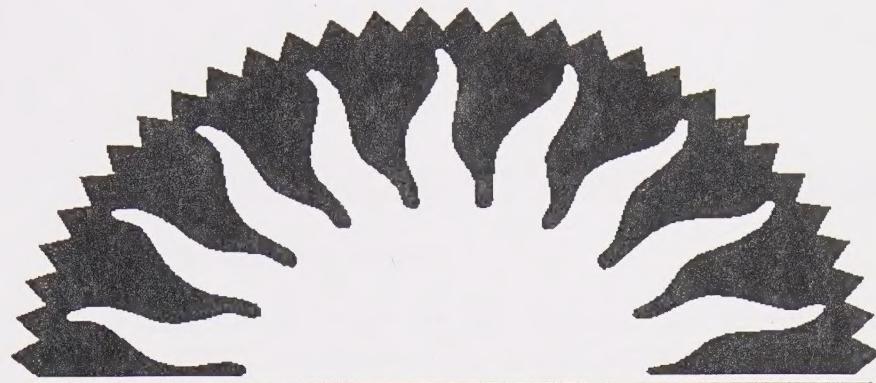


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**NEW REALITIES
TASK FORCE**

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**Report of the
New Realities Task Force**

Proposals for the Consideration of the
Mayor and City Council
To Equalize the City's Resources and Expenditures

March 29, 1996



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PART A: IMPLEMENT NEW STRATEGIES Section 1: Budgeting Issues

Issue: 1.01 Zero Base Budget review by City Manager and Mayor's Budget Offices every five years. This would include 10-year financial projections where such data is currently available from existing City management information systems.

Description of Proposal:

A Zero Base Budget review goes beyond reviewing the accuracy of budgeted revenues and expenditures to review policy changes and budget reductions that would save money without sacrificing public services. Zero Base analyses, prepared for the City and County of San Francisco in both FY 1995 and FY 1996, reviewed major General Fund departments including Police, Fire, Public Health and the Public Library.

Estimated Benefits:

The San Francisco reports recommended an average of \$15.6 million a year in budget reductions that would not compromise services, and identified policy options to restructure operations in areas such as Public Health, Mental Health and Jail operations. San Francisco's project included design of a program-based performance measurement system and analyzed budget data by services provided in relation to expenditure requirements and revenue alternatives.

Based on San Francisco's experience of approximately 1 percent savings, if the City of San Jose were able to achieve the same percentage of savings it would amount to approximately \$4 million every five years. It is logical to expect that the first such analysis would probably identify somewhat larger savings, by reviewing functions whose spending efficiency has not been previously reviewed.

Steps to Implementation, Timelines:

A Zero Base Budget review could be implemented as a policy of the City Council, and be performed jointly by the City Manager and Mayor's Office. In San Francisco, this review has used 10 staff and required 12 weeks to complete. Staff costs have averaged approximately 1.2 percent of the savings identified. Every department/program would be rotated through the zero base process every five years so approximately 20% of the budget would be reviewed annually.

Efforts shall be made to inform and educate City employees on the budget process and a formal mechanism will be established for receipt and consideration of employee input by the City Manager and the Mayor.

Anticipated Impact:

Enhanced Services to the Public

By reducing costs for existing services, without reducing service levels, this program provides additional discretionary revenues to pay for enhanced services to the public.

Applicable Criteria:

Saves money; Feasible implementation; Increases efficiency; Encourages creativity and collaboration; Increases flexibility; Has a relationship to the "New Realities"; Makes a structural change; Final) It is fair (all departments could potentially be reviewed).

Issue: 1.02 Use of program sunsets for new programs in the annual budget process.

Description of Proposal:

Establishing a sunset date for new initiatives as part of the annual budget process would allow that process to be used as a primary means of monitoring the progress of these initiatives and determining the point at which goals have been completed and funding may be modified.

Estimated Benefits:

Use of program sunsets would ensure the public that any new program initiated by the City Council would have a specific duration and a systematic review to determine effectiveness of the program. This would enhance budget oversight of the Council.

Steps to Implementation, Timelines:

Sunset dates for new initiatives should be established at the time these new programs are approved, and reaffirmed during the annual budget process as appropriations for them are approved. This process should be enhanced by the City's shift to a program budgeting model.

Anticipated Impact:

More Flexible Use of City Resources

Review of City initiatives whose goals have been achieved, should permit more flexible use of City resources to address the City's most pressing current problems.

Applicable Criteria:

Saves money; Feasible implementation; Increases efficiency; Increases citizen input and review; Increases flexibility

Issue: 1.03 Adopt a City Council and Redevelopment Agency policy that all capital budget requests must include an estimate of multi-year annual operating costs and sources of revenue to cover cost.

Description of Proposal:

Building and financing costs for new facilities, including sewer plants, roads, museums and sports arenas, represent only a portion of the costs, because these facilities generate not only these one-time capital costs, but also on-going costs for facility maintenance and operations. These costs should be estimated as closely as possible and suggestions given for new revenues to cover costs to give the City Council and City residents a full picture of any new facility's costs, prior to the decision whether to implement that facility. Projected estimated costs should cover a minimum of five years.

Estimated Benefits:

Implementing this policy will provide the City Council and City residents as complete a budgetary picture as possible of the full costs of any new facility. As an example, while total Redevelopment Agency funding of approximately \$9.4 million is proposed for acquisition and building costs in the Guadalupe River Park, additional funds to staff and maintain it are required in the regular City budget. The FY 1996 budget proposes about \$40,000 in one-time and \$200,000 in ongoing costs for a ranger and maintenance staff for the park's second phase.

Steps to Implementation, Timelines:

Operating cost and revenues (to cover those costs) estimates should be required as a City Council policy, and should be provided during City Council consideration of major new capital projects, and should be reviewed during the annual budget process for the City's capital budget and for the budget of the San Jose Redevelopment Agency.

Anticipated Impact:

Improved Decision-Making Capabilities:

Providing additional information on full costs of new capital facilities will allow the City Council and the public to debate the need for such facilities based on their full costs and benefits. It is also likely to lead to more rigorous review of revenue-producing capabilities of such facilities, with an eye to making them pay for themselves in terms of both capital and ongoing operating costs.

Applicable Criteria:

Feasible implementation; Increases efficiency; Increases citizen input and review; Encourages creativity and collaboration; Has a relationship to the "New Realities"; Makes a structural change.

Issue: 1.04 Adopt criteria for funding operating subsidies of non-profit and other organizations.

Description of Proposal:

The City Council currently provides public service programming funds to community-based non-profit agencies through the Contractual Community Services portion of the federal Community Development Block Grant (CDBG) Program, and through limited General Fund financing. CDBG funding is awarded by the City Council based on two sets of recommendations, one by the City Administration, the other by the CDBG Steering Committee.

Both groups evaluate applications for funding using criteria approved by the Council, including: 1) Whether and how well an applicant's proposal meets a current community need; 2) An applicant's experience providing the service proposed for funding; 3) An applicant's ability to use CDBG or other City funding to leverage other financing; 4) Extent of collaboration between applicant and other agencies; 5) Applicant's past program performance; 6) Applicant's fiscal and administrative capability. Points are subtracted for corrective actions that are pending or unresolved on other applicant projects.

This proposal would adopt the above criteria for all subsidies and add the following criteria:

- Assigning extra points to joint applications by two or more providers to provide the same service in different areas of the City, but sharing administrative costs
- Grading applicants by their ratio of administrative to line staff, or by their percentage of administrative versus direct service costs.
- Assigning extra points to applications to provide services that are not already provided by existing organizations and further existing identified City goals and policies.
- Assigning points to applications that provide services with measurable results, such as job placements attained, rather than, for example, numbers of referrals to other organizations.

Estimated Benefits:

Although exact estimates cannot be provided, adoption of these additional criteria should promote greater efficiency among grant applicants, which should translate into more grant money going into direct services versus administrative costs.

Steps to Implementation, Timelines:

The new criteria would be adopted by the City Council prior to the start of the next CDBG application process, and would be used by City Administration and the CDBG Steering Committee in evaluating funding applications, as well as evaluations by the City Manager or Mayor for General Fund subsidies for non-profits.

Anticipated Impact:

One Time or Annual Expenditure Savings or Revenue Enhancements.
This proposal should allow City grant funds to go farther in providing direct services to the public, by promoting greater efficiency and lower administrative costs among grant applicants.

Applicable Criteria:

Feasible implementation; Increases efficiency; Increases citizen input and review; Encourages creativity and collaboration; Increases flexibility; Has a relationship to the "New Realities"; Final) It is fair.

Issue: 1.05 Change format of City budget to a cost-center basis for all programs and activities and implement performance-based budgeting through pilot programs that would eventually cover all City programs.

Description of Proposal:

The current City Budget breaks down spending in most City departments only by broad categories, usually by their major functions (e.g. management, administrative services, technical services, investigative services and field services in the Police Department), by spending categories (i.e. personnel costs, non-personnel costs and equipment), and by revenue source.

This proposal would revise the budget document to show spending by individual programs, so that, for example, costs of the police traffic unit, Project Crackdown or the Youth Protection Curfew Ordinance could be reviewed. Performance-based budgeting would go on to develop measures of the performance of those functions, so costs for a unit of service could be reviewed. This will allow better analysis of programs that are funded through multiple City Departments.

Estimated Benefits:

Program-based budgeting provides a means to identify both the costs and the revenues associated with a specific program, both on a total program and a service unit basis. This allows the City Council to establish fees and other revenue-raising measures to recover all costs of services, and to identify services that are subsidized by other programs or subsidize other programs. A good example would be to identify costs and revenues associated with individual recreational facilities, such as parks, athletic fields and the zoo, developing revenue-generating measures suitable to recover costs of each individual facility. The appropriateness of any facility subsidies can then be evaluated and adjusted.

Steps to Implementation, Timeliness:

The City Council approved the pilot project for the FY 1996 budget on January 10, 1995. As a pilot project, the Council approved having FY 1996 budgets for 18 programs prepared on a program budgeting basis, with the City Manager establishing manual cost collection methods and providing information on service levels and unit costs. This proposal would be implemented to all city programs on a timeline determined by the City Council.

Efforts shall be made to inform and educate City employees on the budget process and a formal mechanism will be established for receipt and consideration of employee input by the City Manager and the Mayor. Employees will be involved with the setting of performance measurements.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

This budgeting method would allow service levels to increase commensurate with demand, by leading to revenue-raising methods to cover all costs of the increased services. Having information available on service unit costs would also permit setting fee levels optimally to cover costs without depressing service demand.

Financial Impact on Service Users:

Service users may experience fee increases as a result of this shift in budgeting methods, but the increases would not exceed the cost of services used. Significant cost for system improvements will be required for full city-wide implementation.

Applicable Criteria:

Feasible implementation; Increases citizen input and review (public awareness and increased accountability); Increases revenues (enhanced ability to pay for services); a relationship to the "New Realities"; Makes a structural change. Final: It is fair.

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART A: IMPLEMENT NEW STRATEGIES *Section 2: Organizational Efficiency Issues*

Issue: 2.01 Implement demand management, where applicable, in City departments.

Description of Proposal:

The concept of demand management institutes proactive City policies to better manage public demand for City services. A current example is the City's Recycle Plus program, which uses curbside recycling to divert trash that would otherwise go to landfills, thereby reducing present refuse hauling costs and avoiding future costs of developing additional landfill space.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Better management of demand for City services reduces costs of those services, thereby providing additional resources for other City functions where demand is more difficult to reduce and or manage.

Steps to Implementation, Timelines:

Demand management actions must be implemented and integrated into City services on a case-by-case basis.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

To the extent that demand for City services is reduced, or can be met from non-City sources, demand management would provide additional resources for City functions where demand cannot be reduced or provided through alternative means.

Applicable Criteria:

Saves money (cost effective); Feasible implementation; Increases efficiency; Increases citizen input and review (public awareness and increased accountability); Encourages creativity and collaboration; Increases flexibility; Has a relationship to the "New Realities"

Issue: 2.02 Conduct a comprehensive management audit of the Police Department.

Description of Proposal:

The proposed comprehensive management audit of the Police Department would include all aspects of Department operations, support services, administration, policies and procedures. It would evaluate staffing levels and staffing methodology including shift scheduling and the use of civilian versus sworn staff.

Estimated Benefits:

It is estimated that the Department could realize significant benefits in the form of increased efficiencies in the areas of staffing that potentially could result in reduced costs and increased field time for sworn officers. Other efficiencies in the utilization of equipment and in streamlining policies and procedures could result in increased productivity or in providing the same level of services with reduced resources.

Steps to Implementation, Timelines:

The Council would have to evaluate the City Auditor's current audit program to determine if it could defer planned audits in order to immediately undertake this audit. Alternatively, the Council could include this audit in the City Auditor's FY 1996-97 audit program or it could contract for the performance of the Police audit.

Anticipated Impact:

It is anticipated that a 3% to 5% improvement could be achieved in the Department's \$141 million budget. This would result in annual cost savings, increased revenues, or additional services valued at \$4.23 million to \$7.05 million. These anticipated benefits are projected to be ongoing, annual savings. Further, it is likely that some one-time savings or benefits would also be identified.

Applicable Criteria:

Saves money (cost effective); Increases the quality of life for San Jose residents; Feasible implementation; Increases efficiency; Increases citizen input and review (public awareness and increased accountability); Encourages creativity and collaboration; Increases revenues (enhances ability to pay for services); Has a relationship to the "New Realities"; Makes a structural change.

Issue 2.03 Adopt a Council policy to provide greater opportunities for competition with the private sector based on cost effectiveness and quality of services. The new "competition policy" would include establishing rules to create a level playing field, allowing City agencies to compete for outside work, ensuring responsible implementation of outside contracts, and the review of current ethics policies to ensure continuation of high ethical standards, approved Council policies and the prohibition of political patronage.

Description of Proposal:

The City administration in conjunction with representatives of labor and the business community will draft a policy related to competitiveness which will include the issues referenced above.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The amount of savings or revenue that would result from this proposal would depend upon the scope of services subject to heightened City/Public Sector competition or the amount of outside work the City would be able to procure.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

The cumulative savings or revenue over five years would also depend upon the scope of City services subject to increased competition or the amount of outside work the City would be able to procure.

Steps to Implementation, Timelines:

The City administration should be directed to bring a proposed Council Policy to the City Council for approval within three months.

The implementation of this recommendation would require the City to analyze its services and functions in order to identify potential areas that could be the subject of competition or areas where the City could compete for outside work. This policy is implemented in conjunction with Issue 6.05

Anticipated Impact:

Reduced/Enhanced Services to the Public:

This proposal would not reduce services to the public. Services could be enhanced in that more resources would become available for existing or new services.

Applicable Criteria:

Feasible implementation; Empowers workforce/Improves Morale; Encourages creativity and collaboration; Increases revenues; Has a relation to the New Realities

Issue: 2.04 Investigate the possibility of providing both health insurance and workers' compensation coverage for City employees in one insurance package.

Description of Proposal:

This proposal would consolidate the City's workers' compensation and health insurance programs so that one broker would provide both.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

This year the City is budgeted to spend approximately \$30 million for worker's compensation (\$10 million) and health insurance premiums (\$20 million). Preliminary estimates from the City's insurance broker indicates that a consolidated insurance package would reduce workers' compensation costs by between 5 - 7 percent (or \$500,000 - \$700,000) and health premium costs by between 5 and 10 percent (or \$1 to \$2 million). Together, this would amount to savings of between \$1.5 and \$2.7 million. Later assessments by the broker indicated that these estimates may have been too high. A revised amount has not been provided.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

The savings should continue to be realized each year once this proposal is implemented.

Steps to Implementation, Timelines:

Bids would have to be solicited from insurance brokers so that City staff could cost out this consolidated insurance package. Employees would need to be educated about the changes in the programs. All told, a year should be sufficient to implement this proposal.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

This proposal would not reduce services to the public. Services could be enhanced in that more resources would become available for existing or new services.

Financial Impact on Taxpayers:

Implementation of this proposal should not have a direct financial impact on taxpayers.

Applicable Criteria:

Saves money (cost effective); Feasible implementation

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART A: IMPLEMENT NEW STRATEGIES *Section 3: Revenue Issues*

Issue: *3.01* Amend the Business License Ordinance to provide a graduated tax for gasoline tank farms.

Description of Proposal:

It is proposed that the City's Business License Ordinance be amended to incorporate graduated fees that take into account the impact of the business on City costs and the value to the business of conducting business within the City. The existing ordinance charges businesses approximately \$18 per employee up to a maximum of \$25,000 per year. Therefore, a gas station that sells 200,000 gallons of gasoline annually and has 12 employees would pay \$222 per year. The Oil Company that supplies the gas station operates a tank farm which may store 5,000,000 million gallons of gas and could sell 60 million gallons annually, but has only seven employees and would pay a business license fee of only \$150 annually.

Estimated Benefits:

By devising and implementing a graduated business license fee, the City could more equitably recover from businesses a portion of its costs. Further, the City would receive increased revenues from those businesses that have not been paying its fair or proportionate share of City costs.

Steps to Implementation, Timelines:

Implementation of this proposal would require the Council to amend the City's Business License Ordinance by analyzing its current provisions and establishing a more detailed and equitable basis to recover City costs. The City Council should evaluate staff recommendations and receive input from the business community and the community at large at a public hearing. The legislative process would require approximately three to six months to complete. If a new fee structure were approved, the City would realize increased revenues in the following fiscal year.

Anticipated Impact:

The implementation of a graduated business license fee for gasoline tank farms would result in increased annual revenues which would vary based on the provisions of the implementing legislation.

Applicable Criteria:

Feasible implementation; Increases revenues (enhances ability to pay for services); Has a relationship to "New Realities"; Makes a structural change.

Issue: 3.02 Increase in Transient Occupancy Tax from present rate of 10 percent to 11 percent or 12 percent.

Description of Proposal:

The Transient Occupancy Tax (TOT) is presently assessed at 10 percent of the rental price for transient lodging (in a hotel, inn, motel, tourist home, or other lodging facility unless such occupancy is for a period of 30 days or more). Presently, the revenues derived from 6 percent of the total 10 percent tax rate are allocated to the TOT Fund and revenues from the remaining 4 percent are allocated to the General Fund. TOT Fund revenue are restricted to special purposes.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Current revenue estimates for the General Fund portion of the TOT in 1995-96 is approximately \$4.2 million. Based on the realization of this revenue, and an assumption that a TOT rate increase would not cause migration of transient occupancy to surrounding cities with lower tax rates, a one percent increase would produce an additional General Fund revenue of \$1.05 million annually, based on current collections; a two percent increase to a new rate of 12 percent would produce additional revenue of \$2.1 million annually.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

TOT revenue can vary with room rates charged by lodging facilities (increasing revenue as average nightly room rates increase) and occupancy rates, which are somewhat dependent on general economic conditions (i.e. discretionary and business travel can decrease in times of economic downturn). On average however, most California Cities have experienced recent revenue growth of between three and five percent annually for hotel/transient occupancy taxes. The current (October, 1995 average room rate for San Jose/Peninsula is \$91.37 (11.6 percent higher than the prior year); the occupancy rate is 82.8 percent (10.4 percent greater than the prior year). The table below presents five-year revenue estimates for one and two percent rate increases for a no-growth assumption and for a five percent annual growth assumption.

Range of Five-year Revenue Estimates

<u>No Growth</u>	<u>Five Percent Annual Growth</u>
One Percent Rate Increase \$5.25 million	\$5.8 million
Two Percent Rate Increase \$10.5 million	\$11.6 million

Steps to Implementation, Timelines:

If revenue to be produced by the tax rate increase is for general purposes (i.e. not dedicated to a specific program or project) a majority vote of the City Council could enact the rate increase, by adopting an ordinance amending the transient occupancy tax. Otherwise, a two thirds majority vote of the electorate would be required. The rate increase could be implemented in a very short time, although some advance notice is customarily provided to the hotel industry so that billing systems can be modified.

Anticipated Impact:

Financial Impact on Taxpayers:

The average nightly room rate for San Jose and the Peninsula is presently \$91.37. A one percent increase in the tax rate would represent an increase to the taxpayers of less than one dollar nightly, on average.

Applicable Criteria:

Feasible implementation; Increases revenues, enhances ability to pay for services; Has a relationship to the "New Realities."

Additional Comments:

Comparative tax rates, provided by the City Manager's Budget Office, are shown below:

Large California Cities:

Los Angeles	14.0%
Anaheim	13.0%
San Francisco*	12.0%
Oakland	11.0%
San Diego	10.5%
Long Beach	10.0%

*San Francisco will be considering a two percent increase to 14% as a general fund contribution to a convention center expansion project if the project bonds are approved on the March ballot.

Local and Peninsula Cities

Palo Alto	10%
Hayward	10.5%
Milpitas	8%
Santa Clara	9.5%
Sunnyvale	8.5%
Fremont	8%

Issue: 3.03 Amend the Utility Tax Ordinance in order to apply the current tax rate to interstate and international long distance phone calls.

Description of Proposal:

San Jose residents and businesses who are consumers of utility services (electricity, gas, water, telephone) now pay 5% of their utility charges in the form of a Utility Tax. The tax is added to the customers' bill, collected by the utility, and remitted to the City within 30 days of collection. Besides the utility companies themselves, insurance companies and banks are exempt from payment of the tax. Under the current ordinance, the utility tax is not applicable to out-of-state long distance calls (i.e. interstate and international calls). This proposal would amend the ordinance to apply the utility tax to such telephone services provided by long distance telephone carriers.

Most cities with utility taxes have extended the tax to interstate and international long distance calls, most notably Oakland and San Francisco in the Bay Area. Recent court decisions have upheld the authority of local jurisdictions to apply such a tax to this class of services.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The 1991 Revenue Study and 1993 Update estimated \$4.6 million in increased annual revenue for this alternative. If implemented for a portion of a fiscal year, its first year revenue would be less.

Ongoing Savings or Revenue. Cumulative Impact Over Five Years.

Assuming a full year of collection in the first year of implementation, this alternative could produce approximately \$23 million in five years. The aforementioned Revenue Study projected low growth in annual revenue collections. The \$22 million estimate for five years assumes no growth in collections.

Steps to Implementation, Timelines:

The extension of the Utility Tax could be enacted with the adoption of an amendment to the Utility Tax ordinance by the City Council. Some lead time may be desirable before its implementation so that long distance carriers can modify billing systems.

Anticipated Impact:

Financial Impact on Taxpayers:

All telephone subscribers would incur increased costs for out-of-state long distance telephone calls. The effect on some customers may be greater in that, for example, some local businesses may be heavily dependent on making such calls as a normal course of their enterprise.

CITY OF SAN JOSE NEW REALITIES TASK FORCE
PART A: IMPLEMENT NEW STRATEGIES
Section 3: Revenue Issues

The proposed tax extension was viewed as "somewhat progressive" by authors of the 1991 Revenue Study, presumably because persons with higher incomes would be more likely to incur greater costs due to the imposition of the tax.

Applicable Criteria:

Feasible implementation; Increases revenues, enhances ability to pay for services; Has a relationship to the "New Realities".

Issue 3.04 Explore other opportunities for application of the Utility Users Tax in the telecommunications industry.

Description of Proposal:

The Task Force recognizes the fluid state of the telecommunications Industry. This recommendation acknowledges that and suggests the City should continue to explore avenues to not lose ground because of shifts in this industry.

Estimated Benefits:

This proposal would ensure the City maintains as stable a tax base as possible.

Steps to Implementation, Timelines:

This proposal is already being implemented by the City Manager's Office and will continue to expand its focus depending upon upcoming judicial decisions and legislative actions at the Federal level.

Anticipated Impact:

Financial Impact on Taxpayers:

It is not anticipated that this proposal would increase the tax burden on taxpayers.

Applicable Criteria:

Has a relationship to the "New Realities".

Issue: 3.05 Increased business tax collections through clarification of legislative definition of tax liability applicable to independent contractors.

Description of Proposal:

Based on a recent report of the City Auditor, the City of San Jose is not always collecting business license taxes from certain independent contractors such as real estate agents, insurance brokers and cosmetologists. Other independent contractors, such as attorneys, restaurants, janitorial services, consultants and accountants/bookkeepers are similarly not paying such business license taxes at this time. The City shall define employees as someone who has a W-2 or can provide other legal proof of their status as an employee.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Based on an updated estimate performed by the Director of Finance using information developed by the City Auditor, implementation of this recommendation could conservatively produce \$850,000 annually through collections of taxes for real estate agents, insurance brokers and cosmetologists alone. This amount will increase, perhaps significantly, with additional collections from such contractors as attorneys, restaurants, janitorial services, consultants and accountants/bookkeepers. Depending on legal interpretation of the existing legislation, some retroactive collections may be achievable, providing one time revenue in an as yet undetermined amount.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Based on the conservative estimate of the Director of Finance, this recommendation could produce \$4.25 million over the next five years.

Steps to Implementation, Timelines:

Completion of legal analysis and appropriate legislative amendment could be achieved in time to implement this recommendation beginning with the 1996-97 fiscal year. Additional revenue could be produced in an indeterminate amount if the legislative changes were implemented during an initial period of Business Tax Amnesty. An amnesty project, which would waive criminal and monetary penalties for those businesses that have evaded business license taxes in the past could produce one time revenue plus a permanent increase in the tax base.

Anticipated Impact:

Financial Impact on Taxpayers:

Some independent contractors who may not be liable for business license tax payments would incur increased expenses in the amount of approximately \$150 annually.

Applicable Criteria:

Feasible implementation; Increases revenues; Has a relationship to the "New Realities; Final: It is fair.

Issue: 3.06 City Council should annually review the cardroom permit fee in relation to the increase cost of providing City services.

Description of Proposal:

Section 6.22.100 of the Cardroom Ordinance of the City of San Jose Municipal Code requires a table permit fee as set forth in the Schedule of Fees established by Resolution of the City Council shall be paid for each table permitted on the premises of a cardroom. The Schedule of Fees, currently in effect, sets the fee at \$5,000 per table annually.

Because the cardroom table permit fee is presently set at a fixed dollar amount it will remain at the same rate until the City Council adopts a new Schedule of Fees and charges with a higher or lower specified fee. Since the original fee was reportedly set to recover the increased requirement for City services, the fee should be increase as the cost of providing City services increase.

This proposal would index the cardroom table permit fee to the City costs. Section 6.22.100 of the Cardroom Ordinance would be amended to require the Finance Department to compute the annual increase in the costs for the City to provide services and to prepare a proposed Schedule of Fees which would reflect the same percentage increase in the cardroom table permit fee.

Estimated Benefits:

One benefit of amending the City's Cardroom Ordinance to require annual review and or adjustment of the cardroom table permit fee would be to align the revenues for providing City services to the actual cost of providing such services.

Assuming that City costs can be expected to increase by approximately 3.0% annually, in the first year this increase would be only approximately \$10,000. However, due to the compounding effect of the indexing proposal, such annual increases would grow at an increasing rate. Over the first five years of its application would average approximately \$10,500 and would total over \$150,000 for the first five years.

Steps to Implementation, Timelines:

Changes in the City's fee setting procedures would require City Council approval of an ordinance amending the Municipal Code. While such an amendment could be enacted at any time, it may be preferable to make its effective date prior to the preparation of the City's annual budget.

Anticipated Impact:

Amendment to the Cardroom Ordinance to require annual review and adjustment of the City's cardroom table permit fee would insure that the fees would continue to cover the cost of providing City services.

Issue: 3.07

City Council should annually review the General Business License tax rates in relation to the regional CPI and other factors. Consideration should be given to maintaining the minimum license fee at its current level.

Description of Proposal:

Under the current ordinance, Title 4 of the Municipal Code, Chapter 4.76, the General Business Tax is assessed using a fixed rate schedule. This schedule is shown below:

<u>Category</u>	<u>Tax Rate</u>
1 to 8 employees	\$150 annually
9 to 1,388 employees	\$150 plus \$18 per employee annually
over 1,388 employees	\$25,000

Because the tax rates are neither indexed to a measure of inflation or based on a percentage of some measure of business growth (such as percentage of gross receipts or percentage of payroll costs) General Business Tax revenues to the City of San Jose have been flat over recent years, at about \$9.0 million annually. Consequently, while the City's costs of providing services to San Jose's business community grows with inflation, business tax revenue remains flat, increasing only with the addition of new businesses or with significant growth in the number of employees.

For example, the cumulative increase in the regional Consumer Price Index (CPI) over the five year period covering fiscal years 1990-91 through 1994-95, amounted to 17.6 percent. However, over that same period, annual General Business Tax revenue increased by only 4.6 percent (from \$8.72 million in 1990-91 to \$9.12 million in 1994-95).

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

If the tax is increased by 3% in the first year of its application, this proposal would produce approximately \$270,000 to \$300,000 in increased revenue to the City's General Fund. This amount would grow in subsequent years due to the compounding effect of increases.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Based on General Business Tax collections over the last five years, the cumulative increased revenue over the next five years could equal between \$4.0 and \$4.2 million.

However, due to the compounding effect of the proposal, such annual increases would grow at an increasing rate. Over the first five years of its application, average annual increases would likely range from \$270,000 to \$1.4 million, averaging approximately \$820,000 annually. (This estimate is based on actual collections and CPI increases for 1989-90 through 1994-95.)

Steps to Implementation, Timelines:

The tax rate adjustment would require City Council approval of an ordinance amending the Municipal Code. While such an amendment could be enacted at any time, it may be preferable to make its effective date coincident with the beginning of a fiscal year. Annually City staff would bring information on previous year CPI and other factors and commensurate tax increase to City Council for approval.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Business tax revenue would grow in relation to both increased demands for services, caused by an increased number of businesses and/or employees and the impact of inflation. Currently, cost increases due to inflationary effects must be absorbed by the City.

Financial Impact on Taxpayers:

San Jose businesses would experience increased taxes, but such increases would not exceed 3.0 percent.

Applicable Criteria:

Feasible implementation; Increases revenues, enhances ability to pay for services; Has a relationship to the "New Realities"; Makes a structural change. Final: It is fair.

Issue: 3.08 The task force suggests that at an appropriate time in the future the Council study the potential for adopting an entertainment business license tax based on gross receipts or a ticket tax on certain types of entertainment businesses. This tax is not currently recommended for enactment.

Description of Proposal:

Businesses within certain "entertainment" classifications would be liable for business taxes on a percentage of gross receipts, instead of on the number of employees or a ticket tax would be enacted.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The revenue alternative studies of 1992 and 1993 estimated that additional revenue in the amount of \$2.5 million annually could be produced by a four percent gross receipts tax.

Actual revenues would be contingent on the number of businesses classified as "entertainment" for purposes of enacting this proposed ordinance.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

At the \$2.5 million annual revenue cited above, approximately \$12.5 million in additional revenue would be produced over five years. However, implementation of this recommendation in conjunction with Issue 3.6 (indexing of business license taxes) would result in some diminution of the indexing revenue estimate.

Steps to Implementation, Timelines:

The City Council should at a future time study the ability and desirability of enactment of such a tax.

Anticipated Impact:

Financial Impact on Taxpayers:

A large majority of San Jose residents would incur increased taxes for a broad range of discretionary spending.

Applicable Criteria:

Feasible implementation; Increases revenues; Has a relationship to the "New Realities".

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART A: IMPLEMENT NEW STRATEGIES *Section 4: Personnel Issues*

Issue: 4.01 Create group based pay plus employee bonuses. Work groups and other employee groups could be used to improve productivity and reduce unwarranted costs.

Description of Proposal:

This proposal would award incentive compensation to individuals within organizational units which demonstrate a measurable reduction in costs or an increase in productivity over a specified period of time.

Gainsharing is part of a compensation program that provides bonus pay to employees who generate cost savings. The bonus pay can be provided to individual or groups that develop ideas that are implemented and result in documented cost savings. The Task Force is particularly interested in providing group rewards in which classes of employees are rewarded collectively for savings in a department. Areas to be targeted would include workers compensation and equipment repair.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The savings resulting from such a program in San Jose would be dependent on the number of ideas generated. For comparison sake, a gainsharing program at McClellan Air Force Base, with 13,000 employees, generated average net savings of \$2.1 million in the last two fiscal years. Applying that ratio to the City of San Jose's 5,200 employees would generate savings of approximately \$842,000. This assumes that the program is structured much like the one at McClellan.

In many instances management auditors have identified opportunities for increasing organizational efficiency by re-ordering the priorities of the individuals within the organization. For example, some employees attach greater importance upon the need for an occasional day off, than upon the organization's need for employee reliability. As a result, organizations with fixed 24 hour staffing requirements and high instances of sick leave must frequently pay a premium to have sufficient staff available when necessary. By identifying high overtime usage organizations and by implementing an incentive-based program to the entire organization, it is likely City departments with high rates of sick leave would place greater emphasis upon the importance of employee reporting reliability.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Savings should be realized each year, as has been the experience in other jurisdictions with gainsharing programs.

Steps to Implementation, Timelines:

1. Identify City departments where program may be implemented.
2. Develop specific proposed programs for City Council review.

An employee suggestion program already exists. This existing program could be expanded on to become a full gainsharing program, with greater emphasis on group rewards. The Task Force suggests that the Fire Department might be a good place to test this type of group approach before implementing it Citywide.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Unknown at this time but should not result in reductions in service.

Financial Impact on Taxpayers:

No direct impact. The major impact of this program would be cost reductions which would enable the City to reallocate funds.

Applicable Criteria:

Cost effective; Feasible implementation; Empowers workforce/improves morale; Encourages creativity and collaboration; Increases efficiency

Issue: 4.02 Use of hearing officers instead of Retirement Boards for disability retirement hearings.

Description of Proposal:

This proposal is to use hearing officers for disability retirement hearings instead of the City's Retirement Board. The Task Force assumes that the rate of approval for disability retirements, particularly for those under the age of 55, would be reduced if hearing officers were used. The State of California conducts their disability proceedings with hearing officers and reportedly has a lower approval rating than the City.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Disability retirements, particularly for employees under the age of 55, are costly for the City as disabled retirees continue to receive a portion of their salary (depending on how many years of service and compensation) and benefits while the City has to pay the full salary and benefits for a replacement employee. To the extent that the rate of disability retirements can be reduced for employees under age 55, the City will realize savings.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Assuming that disability retirement hearings are permanently transferred to hearing officers instead of the Retirement Board, the savings achieved would continue to be realized each year.

Steps to Implementation, Timelines:

The change will require a meet and confer process with employee bargaining units. If approved, the City would then have to make administrative and financial arrangements with hearing officers to implement this proposal.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

This proposal would not reduce services to the public. Instead, services could be enhanced in that more resources would become available for existing services or new services.

Financial Impact on Taxpayers:

Implementation of this proposal should not have a direct financial impact on taxpayers.

CITY OF SAN JOSE NEW REALITIES TASK FORCE
PART A: IMPLEMENT NEW STRATEGIES
Section 4: Personnel Issues

Applicable Criteria:

Saves money (cost effective); Feasible implementation

Issue: 4.03 Establish a wellness program for City employees and conduct a comprehensive safety audit.

Description of Proposal:

Wellness programs have been established by a number of private sector employers to promote the health and fitness of their employees and to then realize savings through reductions in absenteeism and medical insurance premiums. Wellness programs vary but can include health education components such as smoking cessation clinics, nutrition and stress management seminars, and subsidized health club memberships or on-site access to fitness equipment. The specific components of such a program for the City have not been determined by the Task Force but it would be consistent with the concepts described. The City is currently participating in a mentoring program through Joint Venture Silicon Valley in which Amdahl Corp. is advising City personnel on how to establish such a program.

Published studies have documented that employer health promotion programs can lower health care and insurance costs, decrease absenteeism, and improve performance and productivity. Savings in one or more of these areas have been reported as the result of such programs at Coca-Cola, Bank of America, Prudential Insurance Company, DuPont, Pacific Bell, Motorola, and Metropolitan Life Insurance.

A safety audit is also recommended as part of this proposal to assist the City in identifying the causes of on the job injuries and worker's compensation claims.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Savings cannot be determined at this time as the specifics of the program are not yet known. The City's current health insurance premium costs amount to approximately \$19.2 million per year. Absenteeism averaged approximately 15 days per employee per year in 1994-95. Modest reductions in either would have a positive impact on the City. Costs would be incurred to initiate a wellness program. The amount would depend on how the program is defined. However, as cited above, many employers with such programs have found that the dollars expended are more than made up in cost savings and/or increased productivity.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Net savings are assumed to be ongoing once a wellness program is established. Costs for the programs cannot be determined at this time until a program is more defined.

Steps to Implementation, Timelines:

A wellness program could be implemented using in house staff or contract personnel. The first step in implementation would be for City staff to define the specifics of the program and then to determine if it could be implemented with in-house staff or if contract personnel would be needed. A program timeline, including expected savings, could then be established.

A safety audit could be conducted by in-house staff or a contractor. Though the costs of this are not known at this time, the Task Force assumes that reductions in worker's compensation claims would more than offset any cost.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

This program would not reduce services to the public. Any reductions in absenteeism or health insurance costs could result in improved service to the public as either outcome would make more resources available for enhancements to existing or creation of new services.

Financial Impact on Taxpayers:

Implementation of a wellness program should not have a direct financial impact on taxpayers.

Applicable Criteria:

Saves money (cost effective); Empowers work force/improves morale;
Feasible implementation

- Issue: 4.04** Designate a list of physicians for Workers' Compensation claims through a pilot program that would manage the medical care of injured and ill employees from a single department and assess the results.

Description of Proposal:

The concept of this proposal is that City employees would be required to choose from a panel of physicians selected by the City for workers' compensation claims. This would provide the City with control over the physicians who make decisions regarding the level of treatment to be provided to employees injured on the job. It is assumed that some physicians approve workers' compensation claims that are not necessary and that result in increased City costs. Workers' Compensation costs will amount to approximately \$10 million in 1995-96.

Because this approach to health insurance is relatively new, the Task Force recommends establishing a pilot program at a single department before Citywide implementation. This would provide City administration with an opportunity to assess results of this program at one department and determine if greater savings will be achieved if implemented throughout the City.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

City staff estimate that savings resulting from this proposal would range from \$56,000 to \$169,000 annually if implemented Citywide. However, they also recommend against this proposal because of provisions in State law which allow employees to pre-designate their own physicians for these type of services and because City staff believe they are already realizing savings through establishment of a Preferred Provider Organization (PPO) for workers' compensation injury medical services and through services of a contract utilization review firm.

City staff reports that State law allows employers to designate the initial treating physician for 30 days after an injury is reported. However, the same law also allows employees to pre-designate a physician of their choice for the 30 day period. When this is done, the employee's choice overrides the employer's. In addition, State law allows employees to request a change of physician if they are dissatisfied with employer-designated physician. This could potentially limit the fiscal impact of this proposal.

This approach has been proven to be cost effective in the private sector.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

These savings would continue to be realized annually once the proposal is implemented.

Steps to Implementation, Timelines:

This item may require a meet and confer process with employee bargaining groups since it would probably be interpreted as a change in working conditions. The list of physicians would be developed through a cooperative effort of the City Administration and employees.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of this proposal could result in increased services to the public in that any savings realized could be reallocated to other services or program areas.

Financial Impact on Taxpayers:

There would be no direct impact of this proposal on taxpayers. Cost savings could make funds available for service enhancements.

Applicable Criteria:

Saves money (cost effective)

Issue: 4.05 Reform the Civil Service System to increase flexibility in hiring, to streamline the recruiting and hiring process, to enhance progressive discipline, and to permit modified duty placement, with specific direction to include all Attorneys in the City Attorney's Office and Mayor and Council Assistants as Civil Service exempt employees.

Description of Proposal:

The Task Force recommends civil service reform in five areas: 1) more hiring flexibility through exempting certain management and temporary positions from Civil Service; 2) streamlining the recruiting and hiring processes; 3) enhancing progressive discipline; and 4) permitting modified duty placement; 5) specific direction to include all attorneys in the City Attorney's office and the Mayor and Council Assistants as civil service exempt employees.

To create more flexibility in hiring, the proposal calls for exempting certain management and temporary positions from Civil Service regulations. For management positions, the Task Force recommends that the City remove management employees down to the level of division head from Civil Service. Currently most employees other than department heads are governed by Civil Service regulations. Attorneys in the City Attorney's Office, and Mayor and Council Assistants would also become civil service exempt employees (as opposed to contract employees in the case of Mayor and City Council staff). The proposed change would provide upper management with greater flexibility in hiring and terminating their deputies and mid-level managers who are not performing satisfactorily.

For temporary positions, the Human Resources department reports that temporary City programs are often delayed in getting started due to delays in the hiring process resulting from time consuming Civil Service hiring requirements. If employees being hired temporarily, such as for a summer program, could be exempted from these requirements, they could be added to the payroll more quickly and the Human Resources department could provide more timely and responsive service to City departments.

Streamlining the hiring and recruiting processes are recommended to enable the Human Resources department to fill vacant positions more quickly and in a manner that better meets requesting department needs. The Task Force believes that a more flexible and decentralized process would be of benefit to the City.

Regarding employee discipline, the recommendation is to enhance the City's "progressive discipline" process and increase employee incentives for high performance. This is intended to give managers more discretion over disciplinary matters and to reduce the number of civil service hearings. The main disciplinary steps at present are as follows: counseling; documented counseling; reprimand; suspension; demotion; and, termination. At each step beyond reprimand, an employee can appeal to the Civil Service Commission. Changes to consider would include allowing managers to suspend employees for an increased numbers of days for each infraction without civil service hearings allowed for each suspension.

Modified duty placement is also recommended to provide employees who are out on temporary or partial disability alternative positions in the City so that they can keep working and make a contribution to the City.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

These recommendations are not intended to reduce costs but to improve the productivity of the City's human resources function.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

See comment above.

Steps to Implementation, Timelines

Some of the suggested changes would require a meet and confer process between the City and employee bargaining groups.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of these proposals should result in enhanced service to the public as vacancies would be filled more quickly and employees would have more incentives to achieve high performance.

Financial Impact on Taxpayers:

There would be no direct impact on taxpayers resulting from these proposals.

Applicable Criteria:

Empowers work force/improves morale; Encourages creativity and collaboration; Increases flexibility

Issue: 4.06 Increase the co-payment for Kaiser visits and prescriptions.

Description of Proposal:

This proposal would establish a \$5 co-payment for office visits and increase the co-payment for prescriptions from \$1 to \$5. Currently there is no co-payment required for Kaiser office visits. The intent of this proposal is to shift some of the costs of health care from all employees and the City to those who use medical services.

The intention of this proposal is to realize reductions in Kaiser premium costs. By doing so, City costs would be reduced since the City's contribution to all employee's health insurance costs, whether or not they are covered by Kaiser, is 90 percent of the lowest cost plan offered, which is currently the Kaiser plan. An increase in co-payment requirements for Kaiser visits and prescriptions should result in decreased utilization, which is the primary variable affecting premium costs.

In contrast to Kaiser, the City's other health plan, Lifeguard, requires a \$5 co-payment for outpatient visits and does not cover prescription drugs. The City's own employee health plan pays 100 percent of office visits if the employee uses a designated provider (though premium costs are much higher). If not, only 80 percent of the cost is paid and the employee must pay the balance.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Cost savings would be ongoing. Kaiser estimates a reduction in premium costs as a result of the recommended co-payment amounts amounting to approximately \$1.4 million per year for the City.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

The savings estimate of \$1.4 million per year would continue to be realized each year that the recommended co-payment requirements are in place.

Steps to Implementation, Timelines:

The main step would be for the City to negotiate with Kaiser (or whichever organization offers the lowest premium amounts) to arrive at an agreement over the new premium amounts.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

There would be no service impact on the public resulting from implementation of this proposal.

Financial Impact on Taxpayers:

Taxes or fees would not be increased. The financial impact would be internal to the City and allow for reallocating funds from health benefits to other areas. City employees would bear a greater share of their health care costs through increased co-payments for office visits and prescriptions for employees on the Kaiser plan and through increased monthly premium costs for employees on the other more costly plans (since the other plan premium costs would not be reduced and the City would be paying only 90 percent of the lower Kaiser costs).

Applicable Criteria:

Saves money (cost effective); Feasible implementation; It is fair (burden equally distributed)

Issue: 4.07 The City should implement the following items as they relate to binding arbitration with public safety employees: required mediation, tying one time funds to one time expenditures, development of standards of practice, definitions of one-time and surplus funds, comparability of pay standards and other processes available to resolve labor disputes short of arbitration.

Description of Proposal:

This proposal is based on the Task Force's belief that it is in the best interest of the City to take all steps possible to avoid arbitration as part of the salary negotiation process with public safety employees. This proposal calls for the City to:

1. Require Mediation

- Upon declaration of impasse in meet and confer negotiations parties are required to go to non binding mediation.
- Upon completion of mediation, if an agreement is not reached, the mediator will meet separately with the Mayor and the Executive Board of the bargaining unit involved in the mediation.

2. Tie One Time Funds to One Time Expenditures

- One time funds (within the three percent policy for the Contingency and Emergency Reserves) are expressly prohibited from being identified for any arbitrated expenditures.
- One time funds (above the 3% policy) are expressly prohibited from being identified for any salary increases which will be added to base salaries.
- One time funds (above the 3% policy) are allowable sources of funds for expenditures which are one-time in nature (equipment, bonuses, etc.).
- Specific reserve funds are allowable for purposes of base salary adjustments if there is a surplus ongoing revenue stream available to backfill the reserve fund in question.

3. Define Surplus and One-Time Funds

- Surplus and one time funds are defined as those funds which in the previous fiscal year CAFR can be identified as not being consistent ongoing revenues.
- In determining the City's ability to pay, the arbitrator shall take into consideration excluding from any potential award those resources needed to restore either personnel or programs actually reduced because of budget shortfalls in the previous fiscal year.

4. Enact Standards of Practice

- Negotiating Teams (Union and City) agree to schedule all negotiation sessions one week in advance unless mutually agreed to.
- Negotiating teams agree that all meeting cancellation notices shall be 48 hours in advance and in writing including reasons for cancellation.

5. Develop comparability of pay standard

- It is agreed that Police and Firefighters should receive salary increases based upon the salaries of comparable jurisdictions.
- A team of negotiators made up of representatives from both unions and the City shall meet for not more than three months to determine a list of comparable jurisdictions.

Estimated Benefits:

It is anticipated that this proposal will allow more stability to the City's budgeting processes by limiting the availability of one time revenue sources to pay for ongoing salary costs. Requiring a step of mediation after reaching impasse will also hopefully reduce the likelihood of future arbitration which are costly to the City and the bargaining units.

Steps to Implementation, Timelines:

Like many of the Task Force recommendations, it is assumed that this proposal would require approval by the employee bargaining units through a meet and confer process. A related issue is for the City to formalize the compensation survey methods which will generate information to be used to develop a standardized agreed upon comparable set of jurisdictions for comparison use in salary negotiations.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of this proposal should not result in a reduction in services to the public. Services could be enhanced to the extent that the cost savings are applied to increases in other areas.

Financial Impact on Taxpayers:

There would be no direct impact on taxpayers resulting from this proposal.

Applicable Criteria:

Saves money (cost effective)

Issue: 4.08

The City will create a task force to analyze cost saving opportunities related to modifying the existing retirement system for all future City employees. Consideration should be given to creating a second tier retirement system based on either reduced defined benefits or defined contributions; raising the retirement age to 60 or 62 for new Federated employees; offering a buy-out option for existing employees; potential disparities between Federated and Police and Fire retirement benefits; creating a medical benefit buy-out option at the time of retirement; and other possible alternatives. The task force should report to the City Council in not more than six months.

This issue includes three sub-issues, each of which is reported on separately:

- 4.08 a) Convert from a defined benefit system to a defined contribution system
- 4.08 b) Raise the retirement to age to 60 for new Federated employees and allow a buy-out option for existing employees
- 4.08 c) Create medical benefit buy-out at time of retirement

Issue: 4.08 a) Convert from a defined benefit system to a defined contribution system**Description of Proposal:**

This proposal, to be considered by the recommended retirement task force, is for the City to convert from a defined benefit pension plan to a defined contribution plan. Defined benefit plans provide a guaranteed annuity level for retirement to their members. To provide for those set payment amounts, employers and employees contribute to a retirement fund, which is invested and accumulates sufficient funds to serve as the source of retirement payouts. Retirement benefits to the employees are provided for life based on a formula that accounts for the number of years worked and salary at the time of retirement. The City's contribution rates are based on actuarial analyses of the workforce and the gap between projected need and income earned from contributions and investments. At this time, the City and employee contributions and retirement benefits are shown below.

Under its defined benefits system, the City's retirement contribution costs are not controllable. They depend on the makeup of the City's workforce, including factors such as length of service and average age, and on the retirement funds' investment earnings. The City is always at risk of unfunded future liabilities with this type of system.

Current Retirement Provisions
City of San Jose

	Federated	Police and Fire
City Contribution	18.01% of base salary	22.24% of base salary
Employee Contribution	8.12% of base salary	9.35% of base salary
Age/Years of Service for Service Retirement	55 with five years of service or 30 years service at any age	50 with 25 years service, or, 55 with 20 years service, or, at any age with 30 years service Mandatory retirement at age 70.
Allowance	2.5% of final average salary (based on highest 36 consecutive months) x years of service	2.5% of final average salary (based on highest 12 consecutive months) x years of service

A defined contribution plan, on the other hand, would allow for a more controllable and predictable level of City contributions, most likely based on a percentage of salaries. Contribution rates would be determined by the employer through negotiations with employee bargaining groups and would therefore include consideration of the City's fiscal situation, which a defined benefits program does not. Contribution rates in a defined contribution program would not be based on changes in the makeup of the workforce or on market performance of the retirement fund. A defined contribution plan could also result in a reduction in the City's contribution rates, and would eliminate the potential for unfunded future liabilities would no longer be a concern.

For employees, defined contribution plans offer greater flexibility and control. Individual accounts are established for each employee which, at the time of separation, can be transferred to a future employer's retirement plan or to an Individual Retirement Account (IRA). At separation or retirement, employees can elect to receive their retirement benefits in a lump sum rather than as annuity payments. Upon death, all remaining assets are transferred to a beneficiary instead of a reduced annuity payment as is the case under a defined benefits plan. Defined benefit plans are generally most beneficial for employees who stay with a single employer for their entire career since the more years of service, the higher the retirement annuity. For employees who have several employers throughout their careers, defined contribution plans will generally produce greater retirement benefits. Many defined contribution plans allow employees to decide how to allocate their investments, which is not true of defined benefits plans. Employees can also increase their contribution on a pre-tax basis, possibly with an employer match to those contributions.

Defined contribution retirement plans are now fairly common in the private sector.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The City will spend an estimated \$51.3 million in 1995-96 for retirement contributions based on the City's 18.01 percent contribution level for Federated and 22.24 percent for Police and Fire. The amount saved from this recommendation would depend on the results of negotiations with employees. Each percentage point decrease in contribution levels from the two levels would reduce City costs by approximately \$513,200 per year. If the defined contribution system only applied to new employees and existing employees who opted to participate in the plan, we assume that the savings amount would be less. A defined contribution plan should also eliminate major swings in the City's contribution rates from year to year and would eliminate the potential for the City to face an unfunded retirement liability situation.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Savings would continue over time and could be expected to increase if the plan is established as a second tier plan and more new employees join the City's workforce.

Steps to Implementation, Timelines:

Implementation and timing would depend on a meet and confer process with employees. A defined contribution plan could be established for new employees only, for all new and current employees who wish to participate, or for all current and new employees. The latter would be the most difficult to implement as it would affect many active employees who have been planning their retirement based on the current system. Establishment of a plan for all new employees and optional for existing employees would probably have the least difficulties in implementation. Employee education would be crucial to ensure that all existing employees understand the differences between the two plans and have sufficient information to make a decision about which would be most beneficial to them. A Charter amendment may be required if there are reductions in employee retirement benefits below Charter-defined minimum levels.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of this proposal could result in increased services to the public in that any savings realized could be reallocated to other services or program areas.

Financial Impact on Taxpayers:

There would be no direct impact of this proposal on taxpayers. Cost savings could make funds available for service enhancements.

Applicable Criteria:

Saves money (cost effective); empowers work force/improves morale;
Makes a structural change

Issue 4.08 b) Raise the retirement age to 60 for new Federated employees and allow a buy-out option for existing employees.

Description of Proposal:

This proposal, to be considered by the recommended retirement task force, is to increase the minimum retirement age for Federated City employees from age 55 to 60. Under current policies, Federated employees can retire at age 55 or at any age after 30 years of service. By increasing the retirement age to 60 for these employees, the City could realize savings through reduced contributions to the retirement system. With people living longer and able to work until older ages, the City's costs for retirement contributions are likely to increase if the retirement age stays the same. Age 60 is a very common retirement age for full benefits in other public sector jurisdictions, including the California Public Employees' Retirement System (CALPERS) and many of the jurisdictions they serve. The proposed buy out option would allow existing employees to convert to coverage under the new retirement system and keep working until age 60. The value of their contributions and interest earnings from the old system would be converted to the new system.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

A preliminary analysis by the City's actuary indicated potential savings of between \$1 and \$2 million per year in retirement payouts. This assumes that the change would apply to all current employees as well as new hires. It also assumes that employees could still retire starting at age 55 but that the benefits would be reduced by 5 percent for each year under age 60 and that the savings are distributed between the City and employees in the same proportions as contributions are made.

Since a change in the plan such as this proposal would require approval by employees through a meet and confer process, it is possible that a full conversion would not be approved. If a "second tier" retirement plan is established, the estimated level of initial savings would be reduced and would be phased in over time.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

The savings would recur each year if a change is made affecting all current and new employees. If a second tier plan is established affecting only new employees and current employees who opt in to the program, the level of savings would be lower initially and grow over time as more and more of the workforce is phased in to the plan.

Steps to Implementation, Timelines:

As with other personnel recommendations, this would require a meet and confer process and approval by the Federated employee group. The intent of the Task Force is to establish a two-tier retirement system so that existing employees would not be subject to a change in retirement policy but that new Federated employees would begin service knowing that retirement with full benefits is not allowed until age 60.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of this proposal could result in increased services to the public in that the savings realized could be reallocated to other services or program areas.

Financial Impact on Taxpayers:

There would be no direct impact of this proposal on taxpayers. Cost savings could make funds available for service enhancements.

Applicable Criteria:

Saves money (cost effective); Makes a structural change

Issue 4.08 c) Create medical benefit buy-out at time of retirement.

Description of Proposal:

This proposal, to be considered by the recommended retirement task force, would allow retirees to accept a cash payout at the time of retirement in exchange for forfeiting their ongoing medical benefits. Currently those employed with the City for 15 years or more can retire with full medical benefits. The proposal would provide an attractive option for retirees who have redundant medical coverage through their spouses or who are willing to make up the difference themselves between Medicare and actual costs.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The savings amount would depend on the level of participation in such a program and the buy-out amount offered by the City. Using the City's health insurance in-lieu program as a benchmark, approximately 7 percent of the City's workforce is electing to receive a cash in-lieu payment rather than medical insurance benefits. If this same rate were applied to the number of retirees each year, approximately 6 retirees per year would accept a cash payout in lieu of ongoing medical support. Assuming an average annual cost per retiree of \$4,000 for medical insurance premiums, this would only reduce costs by \$24,000 per year. This would be offset by the payout amounts. Applying the 50 percent ratio used for the health insurance in-lieu program for active City employees, the net savings would be only \$12,000 in the first year, or half of the \$24,000. The costs of retiree health insurance are paid from the retirement plans through the City and employee's contribution rates. The projected premium savings would not be a savings to the City's operating costs, but could have a slight impact on contribution rates.

Ongoing Savings or Revenue. Cumulative Impact Over Five Years.

Over time, this proposal would result in increased savings as the more retirees are added to this program. Assuming the same number of retirees are added each year, net savings would accumulate over five years to \$70,000 per year. It seems logical to assume that the rate of participation would increase over time as more and more retirees have working spouses who will also have some sort of retirement medical insurance coverage.

Steps to Implementation, Timelines:

As with most personnel issues, this would most likely require a meet and confer process and approval by employee bargaining units. However, because the program would be optional, we assume that it would not be met with significant resistance. City staff report that the Municipal Code would preclude retirees from re-enrolling for health insurance coverage once they waive their participation. This Code section would need to be changed to eliminate this clause so retirees could re-enroll if they lost their double coverage.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of this proposal could potentially result in increased services to the public in that any savings realized could be reallocated to other services or program areas.

Financial Impact on Taxpayers:

There would be no direct impact of this proposal on taxpayers. Cost savings could make funds available for service enhancements.

Applicable Criteria:

Saves money (cost effective); empowers work force/improves morale

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART B: CONTINUE OR EXPAND EXISTING STRATEGIES *Section 5: Budgeting Issues*

Issue: 5.01 Review Internal Service Fund administrative costs as part of the Zero Base Budget review process.

Description of Proposal:

Internal Service Funds (ISFs) account for the financing of goods and services provided by one City department or agency to another City department or agency on a cost-reimbursement basis. Examples in the City of San Jose include funds to handle various employee benefit claims, the Vehicle Maintenance Fund to account for the cost of operating the City's vehicle maintenance facility, and the Stores Fund to account for purchase and issuance of supplies. Because ISF charges are levied directly against departments using these services, they can significantly affect the funding available for departments to serve the public.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

By lowering client departments' costs for internal services, reductions in ISF administrative costs would leave user departments with additional funds to provide direct services to the public. This is most significant in the Workers Compensation Fund and the Dental Benefit Fund, where administrative costs have increased approximately \$1.5 million and \$350,000, respectively, since FY 1990. Each 10 percent reduction in administrative costs in the Workers Compensation Fund, for example, amounts to a savings of approximately \$250,000.

Steps to Implementation, Timelines:

The City Administration should incorporate the review of the Internal Service Fund with zero base budgeting.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

To the extent that contracting out ISF administrative functions reduces costs, charges to user departments by ISFs should decrease, thereby allowing more of the user departments' resources to be used for providing direct services to the public.

CITY OF SAN JOSE NEW REALITIES TASK FORCE
PART B: CONTINUE OR EXPAND EXISTING STRATEGIES
Section 5: Budgeting Issues

Applicable Criteria:

Saves money (cost effective); Feasible implementation; Increases efficiency;
Has a relationship to the “New Realities”; Makes a structural change; Final:
It is fair.

Issue: 5.02 Analyze the City Manager's proposed budget utilizing the current two tier review with the Mayor's Budget Office.

Description of Proposal:

Annual independent reviews of budgets submitted by City and County executives are a standard operating procedure in several Bay Area governments. Such reviews focus on areas where departments have understated revenues or overstated expenses in their submitted budgets, and also provide a check against errors in the budgeting process.

In the City and County of San Francisco since 1979, and in the County of Santa Clara since FY 1988-89, these annual reviews are conducted by an independent auditor hired under contract to and working under authority of the County legislators, the Board of Supervisors.

This proposal would continue the current system of the City Manager submitting the departments budget proposals to the Mayor's Budget office for review.

Estimated Benefits:

One time or Annual Expenditure Savings or Revenue Enhancements

The independent review of the City's 1992-93 budget identified understated revenues and overstated expenditures amounting to \$3,284,517 on a General Fund budget proposing fiscal year revenues of \$416 million and expenditures of \$467 million. It should be noted that these recommendations were obtained from a review that looked at only 92 percent of proposed revenues and only 57 percent of proposed expenditures.

Annual reviews of the County of Santa Clara budget since FY 1988-89 have identified recommendations for increased revenues and reduced expenditures averaging \$7.2 million annually, on a General Fund budget averaging approximately \$1 billion over that time period. Similarly, annual reviews of the City and County of San Francisco budget have averaged \$15.3 million a year since FY 1972. FY 1996 savings was \$14.9 million on a General Fund budget of approximately \$1.2 billion.

Steps to Implementation, Timelines:

Continuation of the current two tier review process between the Mayor's Budget Office and the City Manager's Budget Office should occur.

Anticipated Impact:

Enhanced Services/Increased Discretionary Revenues

Expenditure reductions and revenue increases identified through the annual budget review generally represent additional discretionary dollars available to enhance services. Because spending reductions are generally based on analyses of spending patterns at current service levels, they **do not** result in reduced services in ongoing programs.

Applicable Criteria:

Saves money; Feasible implementation; Increases efficiency; increases citizen input and review; Encourages creativity and collaboration; Increases revenues; Has a relationship to the “New Realities”; Makes a structural change; Final: it is fair.

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART B: CONTINUE OR EXPAND EXISTING STRATEGIES

Section 6: Organizational Efficiency Issues

Issue: 6.01 Negotiate agreements with other government agencies to jointly obtain services and products.

Description of Proposal:

The City of San Jose should confer with other major cities, the County of Santa Clara, and the State of California to review its cost of primary products and services as compared with these jurisdictions. Wherever possible, the City should pursue joint purchasing agreements and service contracts. Items such as vehicles, gasoline, automotive parts, copy paper, and services including copy machine maintenance, financial auditing, health, liability and other insurance coverage, private legal counsel services and services related to the issuance of debt are examples of expenditures where potential savings may be achieved.

Estimated Benefits:

The potential benefits of entering into joint purchasing and contracting agreements would include reduced costs for any commodities or services obtained through this process. Further, the participating agencies may also be able to reduce the amount of staff time, advertising and other costs currently incurred in their separate purchasing processes.

Steps to Implementation, Timelines:

The implementation of this recommendation would require the City to analyze its purchases of equipment, materials and supplies, and contractual services in order to identify potential areas of joint purchasing. Once the potential joint purchasing areas are determined, the City should contact the other agencies and solicit their interest in entering into joint purchasing arrangements. The City should be able to develop joint purchasing agreements within one year from the commencement of the evaluation of its purchases.

Anticipated Impact:

To the extent that joint purchasing arrangements are developed, the City should be able to realize reduced commodity and service costs as well as some reduction in direct purchasing costs. No specific cost savings estimates have been made. However, if the City were able to achieve a 1.00% savings on \$10 million of purchases, it would realize \$100,000 of savings annually.

CITY OF SAN JOSE NEW REALITIES TASK FORCE
PART B: CONTINUE OR EXPAND EXISTING STRATEGIES
Section 6: Organizational Efficiency Issues

Applicable Criteria:

Saves money (cost effective); Feasible implementation; Increases efficiency;
Encourages creativity and collaboration; Increases flexibility; Has a
relationship to the “New Realities”; Makes a structural change.

- Issue:** 6.02 Increase use of technology including computers or other equipment wherever cost effectiveness and efficiency can be documented by the City Manager and verified by the City Council.

Description of Proposal:

The City is in the process of investing several million dollars into the enhancement of its computer and other technologies. The efficiency of these planned expenditures could be increased if all such proposed expenditures were evaluated on a documented cost/benefit basis by the City Manager and submitted to the City Council for approval. Departmental projections of actual cost savings in the form of reduced labor and non-personnel costs as well as the value of increased services and other potential benefits would be evaluated and itemized by the City Manager. This process would provide an additional factor to enable the City to improve its technology investments. It would also introduce greater accountability into the technology program by establishing quantifiable and measurable outcomes that would facilitate the monitoring of performance.

Estimated Benefits:

The benefits of increasing the use of technology on a pre-audited basis, would include 1) implementation of projects on a priority basis including projected costs/benefits; 2) improved up-front expectations of results; 3) increased cost savings and productivity improvements.

Steps to Implementation, Timelines:

All existing planned projects and projects approved, but not completed, should be analyzed by the City Manager. Following the completion of the evaluation by the City Council of all projects, the funding level, priority and timing of all proposed projects should be reestablished. As projects are completed, the City Council should be given updates on actual performance compared with anticipated results projected by the City Manager.

Anticipated Impact:

It is anticipated that the proposed more rigorous assessment of quantifiable outcomes from technology projects would result in increased actual cost savings versus the value of additional and new services provided or the capability of performing more services in the future. If the City's current plans envision spending \$20 million on technology during the next several years, a 10% enhancement to the projected outcomes would have an equivalent value of \$2 million of technology improvement cost avoidance.

CITY OF SAN JOSE NEW REALITIES TASK FORCE
PART B: CONTINUE OR EXPAND EXISTING STRATEGIES
Section 6 *Organizational Efficiency Issues*

Applicable Criteria:

Saves money (cost effective); Feasible implementation; Increases efficiency;
Has a relationship to the "New Realities"; Makes a structural change.

- Issue:** 6.03 Implement technology delivered services (i.e. paying City bills electronically) where applicable, to City departments.

Description of Proposal:

Currently City of San Jose residents must come to City offices or use the mail to conduct most types of City business. This program would institute new technologies to allow citizens to conduct their business from home using the telephone and/or their home computers. Some City departments have already taken or are planning limited steps in this area, such as an on-line library catalog (Library), electronic reference access to the Municipal Code and other City documents (City Clerk), and a new Recreation Fee Class Registration and Facility Scheduling System (Information Systems). Further enhancements would include accepting credit or debit card payments for utility bills, fines and other services, which would enhance electronic payment from citizens.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

Increasing the availability of technology-delivered services should increase service delivery, efficiency and staff productivity by reducing the amount of business conducted across public counters, and thereby the staffing needed for those counters. Use of electronic payment for services also should give the City access to funds more quickly, would reduce costs now associated with insufficient fund checks, and may improve revenue collections, by allowing residents to effectively spread payments over several months. A study conducted jointly by Master Card and the New Jersey Division of Motor Vehicle Services found that permitting credit card payments for fines saved money, because costs of processing credit card transactions were offset by a larger average transaction size and greater propensity to pay fines in full among credit card users. This program also would be more convenient for citizens who use it, by allowing them to conduct City business at home by computer rather than coming to City Hall.

Steps to Implementation, Timelines:

The City Council should direct the Information Systems Department to study expanding the use of technology to provide City services, including accepting credit cards from citizens for payment of utility bills and other service costs.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Providing citizens the ability to conduct City business without coming to City Hall is in itself an enhanced service to the public. In addition, any savings generated by reducing public counter staff provides additional resources to provide other services. Also, providing citizens the ability to pay utility bills and other City services by credit card should increase revenues, but giving the City quicker access to funds than processing checks provides, reducing bad check costs and increasing collections.

Applicable Criteria:

Increases the quality of life for San Jose residents (makes SJ a more livable city); Feasible implementation; Increases efficiency; Increases revenues (enhanced ability to pay for services)

Issue: 6.05 City departments should continue to identify opportunities to contract out services where cost savings can be documented and verified. This would include evaluation of potential contracting out based on the City's competitiveness policy (2.03) and would add "demonstrated economic benefit to the City of San Jose" as an exception to City staff delivering a service function.

Description of Proposal:

This proposal would change City Council Policy 0-24 on contracted services to promote competition between City departments and the private sector to perform selected City services, such as utility billing, parks maintenance, street repair, and construction management. The proposal would also establish a long, term competitive model that establishes the analytical procedures to evaluate competing private and public sector proposals and to estimate the savings that have been realized.

City of San Jose forces are currently used to provide several services, including vehicle maintenance and custodial and other facilities maintenance services, that could be provided by the private sector.

The City of San Jose should analyze all of its programmatic activities and functions to determine which activities and functions could be performed more economically on a contract basis. Cost saving proposals identified would require independent verification by the City Manager that the proposed contract would result in savings to the City. Further, all contracts for the provision of City services on the basis of economy would require annual verification by the City Manager. This proposal is differentiated from the proposal to allow City departments to contract out services now provided centrally in that it includes all services and functions, not just support services and functions. The City of San Francisco has utilized this type of contracting approach, which is provided for in the City's charter, since approximately 1976.

The County of Los Angeles in FY 1992 effectively put its Internal Services Division, whose duties include facilities operations, into competition with the private sector, by giving other departments authority to hire ISD or other service providers to fulfill these functions, or to provide them with departmental in-house staff. As a result, the department lost about half its workload to private contractors.

Previous studies of the County's experience identified several factors hindering a public agency's ability to compete with the private sector, including: 1) excessive layers of management resulting in an organization that was not responsible, flexible or cost-effective; 2) insufficient authority to adjust staffing levels or hire temporary staff to compete with the private sector; 3) lack of performance standards for craft or custodial workers, limiting accountability and managers' ability to monitor worker productivity; and 4) insufficient control of overhead costs.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The potential benefits of contracting for specific functions or segments of City services would include 1) reduced costs, 2) easier to increase or decrease service levels and 3) reduced equipment and other fixed asset requirements.

By lowering client departments' costs for internal services, this measure would save money that could be used to enhance services. It should also reduce costs in the departments providing central services by forcing them to become more efficient in order to compete with the private sector. This efficiency translates to increased worker productivity, thereby providing the same service with fewer staff at less cost. A 10 percent reduction in costs for the vehicle maintenance program would produce savings of approximately \$668,000, based on the proposed FY 1996 budget, while a 10 percent reduction in the Building Management budget translates to a savings of approximately \$1 million.

Steps to Implementation, Timelines:

A policy permitting departments to purchase internal services from any source based on the lowest available price could be adopted by the City Council. Competitive bidding or some similar method would also have to be established to allow open competition to take place, and departments providing the services subject to competition may need to be given revised policies regarding their budgets and staffing in order to compete effectively.

The implementation of this recommendation would require the City to analyze its services and functions in order to identify potential areas that could be contracted. As potential areas are determined, the City should conduct a comparative cost analysis as well as an assessment of the program or functional impact of contacting for the service versus providing it with City staff. At this point, the City should solicit specific proposals from independent contractors. For services and functions approved for contract consideration, the City Manager should conduct an independent cost analysis to verify the department's projected savings based on the proposed contract. Following the Manager's analysis, the City Council should review and evaluate the proposed contract and approve or reject it based on cost, program, and other considerations. The City should be able to implement this contract program within one year from the commencement of the evaluation of its existing services and functions.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

To the extent that competition for building maintenance and similar services reduces other departments' overhead costs, those departments should have more discretionary funds available to provide services to the public.

Financial Impact on Internal Departments/Employees:

Based on Los Angeles County's experience, open competition for internal services may initially result in a loss of workload to City departments providing these services, and may require adjustments in staffing and pay levels to remain competitive. On the other hand, if City departments are able to compete successfully against the private sector to offer these services, they may be able to acquire additional business from non-City governmental clients. For example, the General Services-Fleet Management unit has already suggested, build-up and equipment installation on new police cars and police motorcycle repairs as functions it could perform for other jurisdictions through contracts.

It is anticipated that the City should be able to realize reduced costs on selected services and functions. The amount of such savings has not been projected. However, for FY 1994-95, the City of San Francisco projects it saved \$15.3 million on 36 contracts for a variety of City services. The services contracted in San Francisco included parking garage management, shuttle bus operation, security and janitorial at various City buildings, parking meter collections, and other services.

Applicable Criteria:

Saves money (cost effective); Increases economic development; Feasible implementation; Increases efficiency; Encourages creativity and collaboration; Increases revenues (enhance ability to pay for services); Increases flexibility; Has a relationship to the "New Realities"; Makes a structural change.

CITY OF SAN JOSE NEW REALITIES TASK FORCE
PART B: CONTINUE OR EXPAND EXISTING STRATEGIES
Section 6: Organizational Efficiency Issues

Issue: 6.06 The City should reduce overtime costs through a systematic review of overtime and a proactive effort to find ways to improve existing procedures in order to reduce overtime. One area in which the City should reduce overtime would be to utilize sworn affidavits in-lieu of court appearances of police officers.

Description of Proposal:

City of San Jose Police Department overtime for sworn personnel amounted to 384,526 hours in FY 1994-95. The total cost to the City for this overtime is approximately \$9.8 million. The causes of the overtime were as follows:

<u>Category</u>	<u>Hours</u>	<u>Estimated Cost</u>	<u>Percent</u>
Special Events	89,462	\$2,274,410	23.3%
Other	83,154	2,114,039	21.6%
Training	52,357	1,331,082	13.6%
Report Writing	50,679	1,288,422	13.2%
Court	45,844	1,165,500	11.9%
Follow-up	28,660	728,628	7.5%
Callback	19,990	508,209	5.2%
Community Policing	10,102	256,825	2.6%
Standby	4.278	108,760	1.1%
Total	<u>384,526</u>	<u>\$9,775,875</u>	<u>100.0%</u>

The FY 1994-95 \$9.8 million cost of police overtime could be reduced by developing specific procedures designed to reduce each category of cost. As an example, several overtime cost control procedures have been developed and implemented by the Department. One procedure requires approval of a supervisor to authorize overtime to be worked at the end of each shift. Other procedures have been developed to minimize court related overtime.

The proposed recommendation described in this section to assist in the control and reduction of police overtime is based on the use of affidavits in-lieu of court appearances. Rather than appear in court each time an officer's appearance is requested, the officers could prepare and submit sworn affidavits during their regular shift.

In addition, the Police Department has successfully developed and implemented other cost containment recommendations, but the Department has not had sufficient detailed time reporting information in the past to more specifically target some of the causes of overtime. However, the new time reporting system being developed with the Finance Department and the Information Systems Department will now provide the detailed information that will permit the Police Department to specifically target causes of overtime previously not defined, including the \$2.1 million 'other' category.

Estimated Benefits:

The expected benefit of utilizing sworn affidavits in-lieu of court appearances would be a significant reduction in the 45,844 officer hours currently consumed in court appearances. The Department's use of the new automated time reporting system to identify and develop new overtime cost controls should yield further reductions in the use of overtime.

Steps to Implementation, Timelines:

The City Manager should confer with the City Attorney on the use of affidavits in-lieu of court appearances. Based on guidelines developed by the City Attorney, the City Manager should implement new procedures related to the use of affidavits in-lieu of court appearances.

The City Manager should complete its development of an automated time reporting system and utilize detailed time data pertaining to overtime usage to develop new overtime control procedures. It is estimated that the use of affidavits could be implemented within one year. The completion of the time reporting system, the compilation and analysis of overtime data, and the development of new overtime control procedures would probably require one to two years.

Anticipated Impact:

The implementation of these recommendations should result in a reduction in the use of overtime for court and other purposes. If the Department is able to achieve a 10% reduction in the usage of court and other overtime, it would save 12,900 overtime hours valued at \$328,000.

Applicable Criteria:

Saves money (cost effective); Feasible implementation; Increases efficiency; Has a relationship to the "New Realities."

Issue 6.07

Include specific, quantifiable performance requirements in Redevelopment Agency development agreements where a direct economic benefit to the City (jobs, tax revenue, etc.) is part of the justification of the project.

Description of Proposal:

The City should require that the Redevelopment Agency include in all of its development agreements where economic benefit to the City is argued, specific, quantifiable performance requirements appropriate for the specific development project.

Estimated Benefits:

By establishing specific and quantifiable performance requirements for Redevelopment Agency projects, the City will provide greater assurance that projects sponsored by the Redevelopment Agency have a measurable economic benefit to the City. In addition, by establishing such requirements, the City Council will also enhance its ability to assess the effectiveness of Redevelopment Agency programs and activities.

Steps to Implementation, Timelines:

The steps to implementation include:

1. Developing a framework for negotiating with developers to define development agreement performance criteria and for providing suitable guarantees that the performance criteria objectives will be met and if not what mechanism will exist to return all or a portion of the Redevelopment Agency's investment in the project.
2. Executing agreements that contain specific and measurable performance guarantees.
3. Establish a monitoring and reporting mechanism to ensure that contract clauses relating to developer performance guarantees are met.

Anticipated Impact:

In addition to providing greater assurance that the objectives of Redevelopment Agency sponsored projects have a measurable economic benefit to the City, the establishment of specific and quantifiable performance requirements would provide for greater accountability over the effectiveness of Redevelopment Agency programs and activities.

Applicable Criteria:

Saves money (cost effective); Feasible implementation

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART B: CONTINUE OR EXPAND EXISTING STRATEGIES Section 7: Revenue Issues

- Issue:** 7.01 Identify and create new enterprise funds that can produce profits to reduce and eventually replace General Fund support. Any resources earned in excess of expenses should remain in the enterprise fund to be used for future enterprise fund purposes or for capital improvements. Such funds create incentives for staff members to be both cost efficient and revenue generating.

Description of Proposal:

The City should proactively pursue the identification and development of its resources that potentially could be converted to profit making enterprises for the general benefit of the City. Enterprise Fund development could be especially applied to recreation services and public services such as parking and vehicle storage, and entertainment.

Estimated Benefits:

It is estimated that the successful development of the City's resources could result in several profit making enterprises that would enhance the quality of life in the City while generating profits to subsidize related City services. Further, the development of enterprise activities in the City would encourage innovative, customer driven and cost effective services.

Steps to Implementation, Timelines:

The City Council would need to establish policies and procedures pertaining to the development of City enterprises. City staff would have to be designated responsibility for this function and specific time lines would need to be determined for periodic reporting to the Council. An initial assessment of City resources including the identification of specific assets or functions that could be developed into profit making enterprises could be performed and submitted to the Council within six months. There is a need to do marketing of enterprise activities to find out what recreational services people want and are willing to pay for. The actual receipt of profits from any successful enterprise that may result from this process would be approximately two to five years in the future.

Anticipated Impact:

The impact of the successful implementation of the development of City enterprises would result in additional revenue to the City General Fund. Depending on the type of development, such revenue would probably amount to less than \$500,000 annually in current dollars.

Applicable Criteria:

Increases the quality of life for San Jose residents (make San Jose a more livable city); Increases economic development; Feasible implementation; Encourages creativity and collaboration; Increases revenues (enhances ability to pay for services); Has a relationship to "New Realities"; Makes a structural change.

Issue: 7.02 Expand effort to strengthen the City's economic base by recruitment of diverse businesses to the City.

Description of Proposal:

This proposal would give direction to the City's Office of Economic Development to continue and strengthen their efforts in business recruitment. The City's Economic Development Agenda calls for a balanced approach to sustaining San José's economic base that includes recommendations for increasing the general fund revenues and attracting a diverse range of businesses that provide good paying jobs for its residents. San Jose, like many other cities in Silicon Valley, is highly dependent on high technology companies. However, there is a diverse range of technology based companies that include telecommunications, peripherals, semiconductors and semiconductor equipment and software. There is also a very strong base of suppliers and service companies located in San Jose who support these sectors. Reversing a trend of the 1980's when many production jobs left the valley, in the past two years, the production operations of these new technology companies are relocating back in the valley because of the time-to-market factor. This will continue to be a challenge for Silicon Valley as these production jobs are critical to the employment of unskilled and semi-skilled workers. This would include better coordination of the efforts of the Redevelopment Agency with the Office of Economic Development.

Estimated Benefits:

It is anticipated that any success in recruitment of diverse types of business will strengthen the City's economic base by not becoming overly reliant upon a single industry.

Steps to Implementation, Timelines:

This proposal is already in existence. The Office of Economic Development should report back to the City Council within six months on their ongoing efforts and specifically address their efforts related to diversifying the City's economic base.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

This proposal will have no direct service level impacts to the citizens of San José.

Financial Impact on Taxpayers:

It is impossible to specifically quantify the economic benefits of this proposal because it is dependent upon the success of the program. It is anticipated that any success in recruitment of diverse types of business will strengthen the City's economic base by not becoming overly reliant upon a single industry.

Applicable Criteria:

Increases Economic Development; Feasible Implementation; Increases Revenues; Has a relationship to the new realities.

RECOMMENDATIONS OF THE NEW REALITIES TASK FORCE

PART B: EXPAND EXISTING STRATEGIES *Section 8: Personnel Issues*

Issue: 8.01 Implement a High Performance Work Organization pilot project in the City through continuation of the TQM effort. This program should be expanded to include cross training and technology training that will be made available to all employees.

Description of Proposal:

This proposal recognizes the ongoing TQM effort in the City. The project organization would adopt participatory management and business process re-design techniques to accomplish the objectives of increased product quality and increased organizational efficiency and effectiveness. The underlying premise behind this approach is that employees who participate in defining the objectives of the organization, who define how the organization accomplishes its mission and who share in the benefits from increased organizational efficiency will have a greater incentive to accomplish positive organizational change.

Estimated Benefits:

The extent to which benefits are realized from the implementation the TQM project cannot be quantified at this time. However, such benefits could include increased productivity, higher overall product quality and improved employee morale.

Steps to Implementation, Timelines:

This proposal is already underway. A formal mechanism for receiving employee input on what training programs should be offered shall be developed.

Anticipated Impact:

Increased Productivity/Organizational Efficiency and Effectiveness

To the extent that management and employees are willing and able to plan, design and implement changes to existing business practices that represent a measurable improvement over existing practices, recipients of City services will benefit from improvements in the quality of services provided and from increased organizational efficiency. This program when fully implemented will have a tremendous positive impact on productivity by streamlining work processes and increasing commitment from employees by empowering them to make decisions at the point of service.

Applicable Criteria:

Saves money (cost effective); Feasible implementation; Increases Efficiency; Empowers workforce/improve morale; Encourages creativity and collaboration; Increases flexibility.

Issue: 8.02 Department heads receive goals and are held accountable for reducing worker's compensation claims.

Description of Proposal:

Managers in the City are directly responsible for controlling or reducing worker's compensation costs through their annual review. Their success at reducing these costs would continue to be included as one criterion in all department heads performance evaluations. The risk manager has established a safety program that has resulted in decreases in the number of claims filed though costs have continued to increase.

Estimated Benefits:

One Time or Annual Expenditure Savings or Revenue Enhancements

The City's budgeted worker's compensation costs for 1994-95 were approximately \$10 million. This amount is apportioned to each department based on the claims experience for the previous reporting period. The amount of the reduction would depend on the cost reduction goals set and the department heads success in achieving them. A goal of a 3 percent reduction would result in cost reduction of approximately \$300,000.

Ongoing Savings or Revenue, Cumulative Impact Over Five Years.

Since worker's compensation costs are determined based on actual claims experience in previous years, savings realized in the first year would continue to be achieved as long as the safety programs continue to be effective. Further improvements could reduce costs further.

Steps to Implementation, Timelines:

Establishment of cost reduction goals and safety procedures to be followed are in existence.

Anticipated Impact:

Reduced/Enhanced Services to the Public:

Implementation of this proposal could result in increased services to the public in that the savings realized could be reallocated to other services or program areas.

Financial Impact on Taxpayers:

This proposal would not have a direct impact on taxpayers. Cost savings could make funds available for service enhancements.

Applicable Criteria:

saves money (cost effective)

ATTACHMENT A

What the New Realities are:

1. Expectation that Government will serve customers and increase efficiency and accountability by government and those spending public funds.
2. Citizens and businesses may need to pay more for services, if they're not willing to receive fewer services.
3. Growing intolerance of the status quo. Citizens don't trust government.
4. A growing split between more affluent and powerful people and the poor the powerless.
5. New federalism, devolving of program responsibility down to the local level.
6. Term limits for City offices.
7. Increasing economic insecurity.
8. Competing in the global and regional economy.
9. Deteriorating Infrastructure.
10. Focus on quality-of-life issues.
11. Affirmative action issues/demographics

ATTACHMENT B

Criteria used in judging recommendations: (Not in order of importance)

1. Saves Money
2. Increases the quality of life for San José residents (makes San José a more livable City)
3. Increases economic development
4. Feasible implementation
5. Increases efficiency
6. Increases citizen input and review (public awareness and increased accountability)
7. Empowers workforce/improve morale
8. Encourages creativity and collaboration
9. Increases revenues (enhances ability to pay for services)
10. Increases flexibility
11. Has a relationship to the "New Realities"
12. Makes a structural Change

For final review: It is Fair (burden equally distributed)

ATTACHMENT C

Please note title is for identification purposes only

CHAIRS

Mayor Susan Hammer

Councilmember Frank Fiscalini

Tom Kelly

Chester Wang (Chairman, Pacific Rim Financial Corporation)

MEMBERS

Troy Brown (Principal, TBA, Architects; Chair, S.J. Arts Commission)

Gary Burke (President, SC Valley Manufacturing Group)

Mary Curtis (Chairman and CEO, Pacifico Inc.)

Amy Dean (Business Mgr. and CEO, South Bay AFL-CIO Labor Council)

Mui Do (General Manager, Vietnam Liberty News)

Linda Dydo (Sr. Librarian, Santa Teresa Branch Library; Representative, Municipal Employees Federation)

Terry Feinberg (Ex. Dir., Tri-County Apartment Association)

Mike Fox (Chairman, S.J. Metro Chamber of Commerce)

Rev. John Freesemann (Pastor, Holy Redeemer Lutheran Church; Pres., Council of Churches of S.C. County)

Jorge Gonzalez (RAZA SI, Community Organization)

Sarah Gonzalez (President, Pacific Connection Inc.)

Richard Gridley (Retired consultant)

Leslee Hamilton (Administrator, Silicon Valley Toxics Coalition)

Ken Heredia (San Jose Firefighters Local 230)

Tiralisa Kaplow (Chair, United Neighborhoods of SCC)

Magda Madriz (Vice President of Human Resources, Environmental/Safety, Training, Xicor, Inc.)

Naomi Nakano Matsumoto (Program/Clinic Manager, Asian American Recovery Services, Inc.)

Nina Mazzo (Ex. Dir., Willow Glen Villa; S.J. Senior Citizens Commissioner)

Ron McPherson (Owner, McPherson Insurance; President, SCC Black Chamber of Commerce)

Fr. Jose Rubio (Parochial Vicar, St. John Vianney)

Ron Sylvia (Professor of Political Science, San Jose State University)

Corazon B. Cortes Tomalinas (Community Activist)

James Webb, Jr. (Administrative Assistant, Office of the City Manager, City of Sunnyvale;
S.J. Library Commissioner)

Susie Wilson (Principal, Solutions by Wilson)

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